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Petroleum Industry Urges Conservation

By Brad Foss, Associated Press

WASHINGTON, Sep 24, 2003 (AP Online via COMTEX) -- While still pressing the need for more drilling, the oil industry is now saying that conservation and greater energy efficiency hold the biggest immediate potential for preventing natural gas prices from skyrocketing.

A report by a committee of oil and gas executives who advise the Energy Department says natural gas prices could average between $5 and $7 per 1,000 cubic feet for years to come without significant advances in energy efficiency.

The spot price for natural gas Wednesday was $4.58 per 1,000 cubic feet, about 50 percent higher than a year ago.

"There has been a fundamental shift in the natural gas supply-demand balance that has resulted in higher prices and volatility in recent years," the National Petroleum Council says in the report to be released Thursday by Energy Secretary Spencer Abraham.

"In the very near-term, reducing demand is the primary means to keep the market in balance because of the lead times required to bring new supply to market," according to an 89-page executive summary of the report obtained by The Associated Press.

To cut consumption, the council recommends updating building codes and equipment standards and implementing rules that would encourage power providers to use their most efficient plants.

Without significant advances in energy efficiency, the country's annual demand will rise above 30 trillion cubic feet by 2025, up from about 23 trillion cubic feet today, the council says. But it adds that even with advances in conservation, North America's natural gas resources will be insufficient to meet demand in the long term.

Production from traditional U.S. and Canadian basins has reached a plateau, the report says, noting that volume from North American natural gas fields is declining at an annual rate of more than 25 percent, requiring that many more wells to be drilled every year just to keep supplies steady.

To address supply problems, the council wants the Bush administration to relax onshore and offshore drilling restrictions, and to encourage natural gas imports.

The report comes when the nation's supply of natural gas is tight and the government is bracing consumers to expect higher home heating costs this winter. Many of the issues raised in the report are being debated by Congress as it attempts to pass broad energy legislation.

Abraham asked the council in March 2002 to advise him on what industry and the government could do to guarantee "adequate and reliable supplies" of natural gas. While a similar study was prepared in 1999, Abraham said substantial changes had occurred in natural gas markets since then and further analysis was needed.

The issue gained added attention last spring when natural gas in storage dropped to its lowest level since the government began keeping records in 1976 and Federal Reserve Chairman Alan Greenspan warned that prolonged high prices would damage the economy, particularly the manufacturing sector.

More than 60 million Americans heat their homes with natural gas, up from about 48 million in 1987, and 90 percent of all new power plants use this fuel, which has been embraced because it burns cleaner than coal and can be found domestically in large quantities.

The report also argues that environmental laws requiring power companies to add expensive pollution controls when modernizing their plants only discourages investment in fuel-efficient technology.

Another solution, the report says, is improving access to a growing global market in natural gas through liquefied natural gas, or LNG.

It recommends a quicker permitting process for new LNG terminals, where tankers from around the world can bring the icy-cold fuel to be regasified and pumped into pipelines. There are just four such facilities nationwide.

The council also wants moratoriums lifted on drilling off the Atlantic and Pacific coasts and more access to energy-rich lands in the Rocky Mountain region. It also endorses the proposal now before Congress, for a new natural gas pipeline from Alaska to the lower 48 states.

The report's authors included Burlington Resources Inc. CEO Bobby S. Shackouls, Energy Undersecretary Robert G. Card and Exxon Mobil Corp. CEO Lee R. Raymond.